

Sioux Gateway Airport Air Service

Sioux City, Iowa

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Transportation

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Introduction

Sioux Gateway Airport, located in Sioux City, IA, is the main commercial airport for over 311,000 travelers in the tri-state area known as Siouxland – a 15 county area in northwestern Iowa, northeastern Nebraska, and southeastern South Dakota. In 1988, Sioux Gateway Airport had ten daily jet flights with service to Chicago, Denver, Minneapolis, and St. Louis. Now, there are only two jet departures a day. Since the advent of deregulation in 1978, enplanements at Sioux Gateway have fallen from 113,000 per year to 90,000 in 1998. Air service has deteriorated causing passenger enplanements to decrease while, nationally, total domestic passenger enplanements more than doubled.

Northwest Airlines is the only carrier in the market that provides commercial jet service. All Northwest flights are routed from Sioux City to their hub in Minneapolis. Commuter service is provided by Northwest Airlink (operated by Mesaba Airlines) to Minneapolis and Trans World Express (operated by Trans States Airlines) to St. Louis.

The reduction in air service and passenger enplanements at Sioux Gateway Airport does not correspond with the robust economic growth of the Siouxland region. Since 1988, over 20,000 jobs have been created and unemployment has dropped from 5.2% to 2.6%. Median household income increased from \$21,900 to \$34,600 and retail sales have increased by 52%. Total personal income has risen dramatically in the three largest counties in our service area - 6.3% in Woodbury County, 9.8% in Dakota County, and 21.9% in Union County.

In the last ten years, despite the very favorable economy, passenger leakage to other airports has increased from 25% to 60%. Jet service dropped from ten to two departures a day. Other similarly sized Midwest markets still average ten jet flights per day. In conversations with local travel agencies and focus group discussions with corporate travelers, we found that there were several factors that went into the decision to fly out of alternate airports. The most important factors were: the availability of non-stop flights, price, flexibility of schedules, and type of aircraft.

Local History of Air Service - 1978 to 1999

Prior to the Deregulation Act of 1978, Sioux Gateway Airport received frequent service by Ozark Airlines and North Central Airlines with DC-9 jet aircraft and F-27 turbo prop aircraft to the key markets of Chicago, Denver, Minneapolis, and St. Louis. In the 1980's, Ozark was acquired by TWA and North Central was merged into Republic Airlines who later was acquired by Northwest Airlines. In 1986, United Airlines began jet service to Chicago and Denver and America West Airlines started service to Phoenix.

In 1990, TWA ended jet service and was replaced by TW Express with flights to St. Louis. In 1991, America West ceased all operations at Sioux Gateway Airport. United Airlines canceled its jet service in 1993, with United Express remaining to provide commuter service to Chicago and Denver. United Express left the Sioux Gateway market in October 1997, leaving the community without direct connections to Chicago and Denver.

After United Airlines ceased its jet operations, Northwest Airlines saw an opportunity and commenced jet service from Sioux Gateway Airport to Minneapolis in 1994. Aspen Mountain Air provided service to Denver in 1998 for a short time, before reducing their route structure.

Strategies Implemented to Restore Air Service

December 1996: Community Hires Airport Marketer

In December 1996, improving the quality of air service in the region became a top priority of the Siouxland Initiative, a group of private investors within the Siouxland Chamber of Commerce. In cooperation with the city, the Initiative began funding a Director of Airport Marketing, demonstrating the commitment of the community towards restoring the quality, adequate, reliable air transportation that is vital for continued economic development of the area. The Director's time is devoted to increasing enplanements and recruiting additional air service.

August, 1997 to December, 1997: Consultant Study Shows Market Underserved

In August of 1997, Tri-Star Marketing, a consulting firm in California, completed a passenger and cargo survey of the Siouxland region. The survey showed Sioux Gateway passenger potential could support jet flights to four hubs –Chicago, Denver, Minneapolis, and St. Louis.

The study recommended contacting five airlines for service. Presentations were mailed to them in October 1997. All five airlines were contacted after the presentations were sent and meetings were held with Aspen Mountain Air (October 29, 1997) and Air Wisconsin (December 11, 1997).

April, 1998 to September, 1998: New Entrant Carrier Falters Due to Capitalization

Aspen Mountain Air began Sioux City-Denver service on April 14, 1998. The community was very supportive of new air service and Aspen was offered a significant incentive package funded by local private and public entities.

Since all conversations with Aspen included service to both Denver and Chicago, Aspen filed an application with the DOT for four slot exemptions at Chicago O'Hare on March 26, 1998. If granted, the four slot exemptions would allow Aspen to provide two daily round-trip flights in the Sioux City-Chicago market. Letters of support were immediately sent from major corporations in Siouxland and congressional leaders in the tri-state area.

On April 21, 1998, the DOT granted new slot exemptions and Aspen Mountain Air was not on the list. Another letter writing campaign began, asking the DOT to consider Aspen for the remaining slots to serve Sioux City. However, after serving Siouxland for 4 1/2 months, at a 47% load factor, Aspen Mountain Air filed Chapter 11 bankruptcy and discontinued service to Sioux Gateway on September 11, 1998. Aspen officials commented that their financial situation would have been greatly improved if they had obtained slots at Chicago-O'Hare.

October, 1998 to present: Major Carriers Courted/ Community Slot Application

We have met with United Airlines and they are not interested in restoring service to Sioux City at this time since growth within their company is expected to be minimal for 1999. The shortage of available aircraft was the most limiting factor. United also expressed concerns that the presence of Southwest Airlines in Omaha would drive the yield down in our market as carriers adjusted prices to remain competitive. They did recognize the great potential of the market, however, and were surprised at the amount of corporate travel in a community of our size.

We continue to work towards restoring service to our most important hubs in Chicago and Denver. Slots are the key issue for restored Chicago service. When talking with prospective airlines they all mentioned that Sioux City would move up on the list of possible new markets if we could obtain slots at O'Hare.

We researched the possibility of applying for slots as a community, which would allow us to retain access to O'Hare if an airline decided to discontinue service. A community-owned slot would be a valuable tool for attracting air carriers.

On April 1, 1999, the City of Sioux City, IA filed an application with the DOT requesting four slot exemptions at Chicago O'Hare (OST-99-5475) to provide two daily round-trips from Sioux City to Chicago. This application was filed after the DOT issued Order 99-3-12 on March 16, 1999 which granted three slots each to two communities, Savannah/Hilton Head and Greenville/Spartanburg. While these slot exemptions were granted on a 179-day trial basis, they set a precedent for underserved communities to be eligible for exemptions.

We continue to contact other carriers regarding service. We have two meetings scheduled in the

next two months and a third carrier has agreed to meet with us.

In addition, we continue to cultivate the relationships with our existing carriers, Northwest Airlines and Trans World Express. They have been very responsive to our requests and we value them as partners in our community. Each year, we travel to the corporate headquarters of our current carriers as a courtesy visit to share information and discuss any issues.

Congressional Action

Our overall goal is to improve air service by increasing access to hub airports in the Midwest. We are a “non-hub” market that currently does not have the service needed to access hub markets. We will always be in this position as we are surrounded by large metropolitan hubs in Minneapolis, St. Louis, Chicago, Denver, and Kansas City. At the present time, we have nonstop service only to Minneapolis and St. Louis. We further define ourselves as an underserved market because our research data shows Sioux Gateway can generate sufficient boardings for airlines to survive without subsidies, once a carrier is established.

We believe part of the reason non-hub airports such as ours become underserved is because we are too big to qualify for Essential Air Service, but too small to be attractive to carriers in today’s market driven aviation economy. The solution is most likely a combination of efforts, not one answer.

Mergers, acquisitions, and bankruptcies have caused the consolidation of the airline industry, with only a few major airlines surviving to compete for the passengers. Since each airline has limited resources, they are forced to use available aircraft in only the most profitable markets. Smaller markets, like Sioux City, while profitable, cannot compete against significantly larger markets for the few available aircraft.

We support action by Congress as follows:

1. Allocation of slots to communities

A tremendous amount of the passenger traffic from Siouxland goes to Chicago as a destination or as the connecting point to other national and international destinations. In calls on carriers, we are often told service to Chicago O’Hare is contingent on obtaining slots. Had our community been able to retain the slots in Chicago lost when Great Lakes Aviation (a United Express carrier) withdrew from our market in 1997, we would have direct air service to Chicago today.

We support a policy change to allow the DOT to allocate slots directly to communities with underserved airports. The DOT has recently granted slot exemptions to two communities, Savannah/Hilton Head and Greenville/Spartanburg, on a 179-day trial basis. We have a

community slot application on file with the DOT.

We do not support immediate elimination of slot control. We believe we will fare no better than we do today, unless there is preference to underserved communities that can generate sufficient boardings to avoid long term subsidies.

2. Capitalization for all types of aircraft serving underserved markets

Current legislation before Congress focuses primarily on capitalization only for regional jets in underserved markets. We support capitalization and loan programs for any market acceptable aircraft serving underserved markets, not just regional jets. It could be a turbo-prop or a Boeing 737, the same challenge exists to remain financially viable during the start-up period, until the routes are established.

3. DOT action on unfair pricing practices

We agree with many others that competition is the key to reasonable fares and to better service. We encourage the Department of Transportation to find ways to act quickly when unfair pricing practices occur. There should be a deadline set for DOT responses to pricing complaints. The DOT must act before a new entrant carrier is priced out of a market, rather than penalizing after the fact.

4. Audit of slot utilization

Every airline using their allocated or purchased slot must show that the slot is being effectively used. The general rule of 60% utilization appears to be quite loose and susceptible to creative scheduling. Given that slots may be with us for some time, DOT's auditing of slots should be of a higher effectiveness test. With this higher test, it is likely more slots could be available to under served communities.

Conclusion

As the Siouxland region continues to grow, quality air service becomes even more critical. Siouxland's ability to continue developing as a business center depends on frequent, reliable passenger service at Sioux Gateway Airport. Our marketing survey showed that Sioux Gateway passenger potential could support jet flights to four hubs - Chicago, Denver, Minneapolis, and St. Louis. Currently Northwest Airlines is the only carrier providing commercial jet service - to their hub in Minneapolis. Northwest Airlinik provides our only commuter service to Minneapolis and Trans World Express to St. Louis.

It is essential that we restore nonstop service to Chicago and Denver. Chicago is a top destination besides being a vital connecting hub for domestic and international travel. Denver offers our passengers excellent access to the West and Southwest.

Congress can help Sioux Gateway by taking action to:

- Allocate slots to underserved communities - The slot restrictions at Chicago O'Hare limit our access to a major connecting hub. Several airlines have expressed interest in providing Chicago service if we were able to obtain slots.
- Enhance opportunities for capitalization – We support capitalization and loan programs for any aircraft serving underserved markets, not just regional jets.
- Encouraging swift action by DOT on unfair pricing practices – The DOT must respond quickly before a new entrant carrier is priced out of a market.
- Auditing slot utilization – We believe more slots would be available if slot use restrictions were tightened and more closely enforced.

Competition is the key to better service and reasonable fares. Mergers, acquisitions, and bankruptcies have caused the consolidation of the airline industry, with only a few major airlines surviving to compete for the passengers. Since each airline has limited resources, they are forced to use available aircraft in only the most profitable markets. Smaller markets, like Sioux City, while profitable, cannot compete against significantly larger markets for the few available aircraft.